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SENSITIVE

STATE FOR EB/IFD, EUR/UMB AND EUR-IO/EX

E.O. 12958: N/A

TAGS: [AFIN](#) [ECON](#) [EFIN](#) [PGOV](#) [MD](#)

SUBJECT: MOLDOVAN LEU UP AGAINST THE U.S. DOLLAR

SENSITIVE BUT UNCLASSIFIED; PLEASE PROTECT ACCORDINGLY

¶1. (SBU) The Moldovan Leu (MDL) continues its steady appreciation against the USD. On March 11, the National Bank of Moldova's (NBM) official exchange rate (set for accounting purposes) was MDL 10.9357 per USD and MDL 16.7924 per Euro. Year-on-year the MDL has appreciated 16.7 percent against the USD and remained steady against the Euro. The average exchange rate at commercial banks and exchange offices currently varies between MDL 10.07 and MDL 10.76 per USD and MDL 16.00 and MDL 16.63 per Euro. As a result of the declining USD, the use of the Euro as a reference price in Moldova for housing and durable goods has increased.

¶2. (SBU) While the weakening USD has caused part of the upward pressure on the MDL, massive inflows of foreign currency sent from Moldovans working abroad and foreign direct investments (FDI) have also been contributing factors. According to the Government of Moldova, in 2007 FDI reached USD 540 million, a record level, and remittances topped USD 1.3 billion. In response, the National Bank of Moldova (NBM) was active in the foreign exchange market throughout 2007, buying USD 367 million in currency. According to preliminary data, the NBM purchased USD 11 million in currency in January 2008.

¶3. (SBU) The NBM has also limited the amount of domestic currency available for foreign exchange by selling short-term bank certificates (sterilization transactions). According to sources at the NBM, in 2007 these transactions totaled MDL 30 billion. In the first two months of 2008, the NBM's sterilization transactions totaled MDL 7.5 billion. This is indicative of the mounting pressure on the MDL, and the formidable task ahead for the NBM if Moldova is to meet its IMF-mandated target of 10 percent inflation for 2008.

KIRBY